Episode 8: Private Equity Buyers

In this week's podcast, Simon Lack talks about the difference in value seen by private and public market investors.

Show Notes:

Energy remains out of favor (:46)

Recently dropped to 4.5% of S&P500 (:48)

FT wrote about Why US energy investors are experiencing a crisis of faith (1:01)

Being an energy investor requires religious conviction (1:12)

Attractive dividend yields (1:22)

Growing cashflows (1:23)

Malaise caused by reinvesting too much cash (1:36)

Poor expense control (1:46)

Fears of global warming (1:49)

Blackstone bought 56% of Tallgrass they didn't already own (2:00)

GS estimates $250BN in private capital for infrastructure and natural resources (2:20)

Ultra low bond yields + tremendous demands for stable, long term flows (3:11)

Pension funds are part of the demand. US pensions 28% in fixed income, up 3% (3:19)

Blackstone paying 36% premium (4:06)

All good news, lifted the sector (4:20)

Except seems a bit of bait and switch (4:30)

Blackstone bought 44% earlier this year (4:40)

But buying 56% costs less than buying 44% earlier this year (4:52)

Questions asked about why they hadn't bought whole company (4:55)

Meanwhile stock has slid over uncertainty about capex, recontracting on pipelines (5:04)

Blackstone took opportunity to bid for 56% they didn't own at $19.50, 35% premium (5:15)

Management team gets to sell their shares at $26.25, 35% above deal price (5:33)

Good to see private equity buying another pipeline company (6:27)

Finding value in sector (6:32)

Disappointing to see another management team structuring transaction with superior rights for themselves compared with other investors (6:37)

Links:

Why US energy investors are experiencing a crisis of faith

https://www.ft.com/content/71655bca-c8c2-11e9-a1f4-3669401ba76 f